ALTERNATIVE FORECASTS

IHS Global Insight has assigned a 65% probability of occurrence to its November 2010 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP expands 2.7% in 2010, 2.3% in 2011, 2.9% in 2012, 2.7% in 2013, and 3.1% in 2014;
- U.S. nonfarm employment drops 0.5% in 2010, grows 1.0% in 2011, increases 1.8% in 2012, rises 1.8% in 2013, and grows 1.8% in 2014;
- After peaking at 10% at the end of 2009, the annual U.S. civilian unemployment rate falls gradually to 7.6% by the end of 2014;
- consumer inflation is 1.7% this year, 1.5% next year, 1.9% in 2012, 2.0% in 2013, and 2.2% in 2014;
- the current account deficit is $495 billion in 2010, $486 billion in 2011, $496 billion in 2012, $528 billion in 2013, and $520 billion in 2014; and
- the federal unified budget deficit is $1.29 trillion in 2010, $1.33 trillion in 2011, $948 billion in 2012, $730 billion in 2013, and $708 billion in 2014.

OPTIMISTIC SCENARIO

IHS Global Insight's *Optimistic Scenario* has been assigned a 15% probability of occurrence. In this scenario, the private-sector recovery at last springs to life. The plus from more monetary stimulus offsets the drag from waning fiscal stimulus (and less push from inventory building) as 2009 stimulus dollars run out. The improved economic environment does not rely on any extra stimulus above that in the baseline, but instead on a revival in private-sector confidence. In addition, the standard optimistic scenario assumption of stronger total factor productivity growth is also in place. Higher productivity supports lower inflation and stronger income growth over the long term—but in the short term, a more vigorous recovery means that prices push higher than in the baseline particularly for commodities such as oil. With credit channels functioning more normally, business fixed investment rebounds 11.0% in 2011 (versus 5.9% in the baseline). The recovery in residential investment is also stronger in the optimistic scenario, with housing starts rising to 911,000 units in 2011 (versus 783,000 units in the baseline). The *Optimistic Scenario* also assumes a faster growth rate for global GDP, along with a dollar that is initially weaker than its baseline value. Exports increase 11.7% in 2011, compared with 8.2% in the baseline. Looking further ahead, the robust U.S. growth eventually boosts the dollar above its baseline value by the third quarter of 2012. Compared with the baseline, the *Optimistic Scenario* initially assumes higher energy prices through 2011, due to stronger global demand, but subsequently assumes lower prices in 2012 and beyond due to a more optimistic assumption about supply.

On net, these national assumptions produce a much brighter economic outlook than in the baseline. Real GDP accelerates to 4.0% in the fourth quarter of 2010, and then remains at or above that rate through the end of 2011. Real growth averages 2.8% in 2010 and 3.8% in 2011. The unemployment rate begins dropping almost immediately, falling half of a percentage point from its October level of 9.6% in just six months, a full percentage point over the next twelve months, and two percentage points over the next two years. Inflation implications of the stronger growth in the *Optimistic Scenario* are modest. Initially, consumer prices do rebound more sharply than in the baseline, but lower oil prices and improved productivity growth bring the CPI's year-on-year inflation rate below its baseline pace by the second half of 2012. In short, the *Optimistic Scenario* sees a stronger and more-stable growth profile than the baseline, but without adverse consequences for the long-term inflation outlook.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2011

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
U.S. GDP (BILLIONS)												
Current $	15,172	15,831	16,527	17,364	15,457	16,334	17,068	17,887	14,745	15,081	15,742	16,573
% Ch	*3.6%*	*4.3%*	*4.4%*	*5.1%*	*5.4%*	*5.7%*	*4.5%*	*4.8%*	*0.8%*	*2.3%*	*4.4%*	*5.3%*
2005 Chain-Weighted	13,532	13,921	14,298	14,742	13,744	14,257	14,694	15,200	13,201	13,371	13,700	14,088
% Ch	*2.3%*	*2.9%*	*2.7%*	*3.1%*	*3.8%*	*3.7%*	*3.1%*	*3.4%*	*-0.1%*	*1.3%*	*2.5%*	*2.8%*
PERSONAL INCOME - CURR $												
Idaho (Millions)	51,957	54,223	56,969	60,423	52,484	55,975	59,400	63,130	51,118	51,424	53,161	56,425
% Ch	*3.1%*	*4.4%*	*5.1%*	*6.1%*	*4.1%*	*6.7%*	*6.1%*	*6.3%*	*1.5%*	*0.6%*	*3.4%*	*6.1%*
U.S. (Billions)	12,900	13,409	13,999	14,787	13,074	13,804	14,426	15,175	12,665	12,827	13,369	14,230
% Ch	*3.2%*	*3.9%*	*4.4%*	*5.6%*	*4.5%*	*5.6%*	*4.5%*	*5.2%*	*1.4%*	*1.3%*	*4.2%*	*6.4%*
PERSONAL INCOME - 2005 $												
Idaho (Millions)	46,116	47,380	48,921	50,863	46,272	48,667	51,142	53,588	45,714	45,131	45,537	47,160
% Ch	*1.7%*	*2.7%*	*3.3%*	*4.0%*	*2.1%*	*5.2%*	*5.1%*	*4.8%*	*0.8%*	*-1.3%*	*0.9%*	*3.6%*
U.S. (Billions)	11,450	11,717	12,022	12,447	11,526	12,002	12,420	12,882	11,326	11,257	11,451	11,894
% Ch	*1.8%*	*2.3%*	*2.6%*	*3.5%*	*2.5%*	*4.1%*	*3.5%*	*3.7%*	*0.7%*	*-0.6%*	*1.7%*	*3.9%*
TOTAL NONFARM EMPLOYMENT												
Idaho	608,472	624,890	642,419	658,847	610,914	636,634	665,035	689,211	603,306	603,445	604,192	613,129
% Ch	*1.0%*	*2.7%*	*2.8%*	*2.6%*	*1.4%*	*4.2%*	*4.5%*	*3.6%*	*0.2%*	*0.0%*	*0.1%*	*1.5%*
U.S. (Thousands)	131,551	133,981	136,458	138,946	132,794	136,305	139,210	141,722	129,998	130,502	132,300	134,758
% Ch	*1.0%*	*1.8%*	*1.8%*	*1.8%*	*1.9%*	*2.6%*	*2.1%*	*1.8%*	*-0.2%*	*0.4%*	*1.4%*	*1.9%*
GOODS-PRODUCING SECTOR												
Idaho	86,823	90,932	95,162	98,305	88,815	94,889	100,046	104,592	83,504	83,273	85,519	86,948
% Ch	*-0.4%*	*4.7%*	*4.7%*	*3.3%*	*1.8%*	*6.8%*	*5.4%*	*4.5%*	*-4.1%*	*-0.3%*	*2.7%*	*1.7%*
U.S. (Thousands)	18,113	18,561	19,390	20,080	18,506	19,233	20,074	20,745	17,644	17,518	18,302	19,175
% Ch	*0.7%*	*2.5%*	*4.5%*	*3.6%*	*2.8%*	*3.9%*	*4.4%*	*3.3%*	*-1.9%*	*-0.7%*	*4.5%*	*4.8%*
NONGOODS-PRODUCING SECTOR												
Idaho	521,649	533,958	547,257	560,542	522,098	541,745	564,990	584,619	519,802	520,171	518,674	526,181
% Ch	*1.3%*	*2.4%*	*2.5%*	*2.4%*	*1.4%*	*3.8%*	*4.3%*	*3.5%*	*0.9%*	*0.1%*	*-0.3%*	*1.4%*
U.S. (Thousands)	113,438	115,420	117,068	118,866	114,288	117,071	119,136	120,977	112,354	112,984	113,999	115,583
% Ch	*1.1%*	*1.7%*	*1.4%*	*1.5%*	*1.8%*	*2.4%*	*1.8%*	*1.5%*	*0.1%*	*0.6%*	*0.9%*	*1.4%*
SELECTED INTEREST RATES												
Federal Funds	*0.1%*	*1.3%*	*3.4%*	*3.6%*	*1.1%*	*2.7%*	*3.3%*	*3.4%*	*0.1%*	*0.4%*	*3.7%*	*5.3%*
Bank Prime	*3.3%*	*4.3%*	*6.4%*	*6.6%*	*4.2%*	*5.8%*	*6.3%*	*6.4%*	*3.3%*	*3.4%*	*6.7%*	*8.3%*
Existing Home Mortgage	*4.6%*	*5.2%*	*6.2%*	*6.3%*	*5.7%*	*5.9%*	*5.9%*	*5.9%*	*4.2%*	*5.4%*	*7.0%*	*7.8%*
INFLATION												
GDP Price Deflator	*1.3%*	*1.4%*	*1.6%*	*1.9%*	*1.6%*	*1.9%*	*1.4%*	*1.3%*	*0.9%*	*1.0%*	*1.9%*	*2.4%*
Personal Cons Deflator	*1.3%*	*1.6%*	*1.8%*	*2.0%*	*2.0%*	*1.4%*	*1.0%*	*1.4%*	*0.6%*	*1.9%*	*2.5%*	*2.5%*
Consumer Price Index	*1.5%*	*1.9%*	*2.0%*	*2.2%*	*2.2%*	*1.7%*	*1.2%*	*1.6%*	*0.7%*	*2.3%*	*2.8%*	*2.7%*

Forecast Begins the THIRD Quarter of 2010

The stronger national forecast lifts the Idaho economic outlook above what was expected in the *Baseline Scenario*. Idaho nonfarm employment grows faster in each year. As a result, there are about 30,000 more jobs in 2014 than in the *Baseline Scenario*. This improvement is spread between both the goods- and nongoods-producing sectors of the economy. The former is up by 6,300 jobs in 2014 and the latter has 24,100 more positions. Not surprisingly, Idaho nominal personal income also grows faster in this scenario. Specifically, from 2011 to 2014 it increases an average of 5.8% annually compared to the 4.6% annual clip in the *Baseline Scenario*. The faster pace results in personal income being $2.7 billion higher in 2014 in the *Optimistic Scenario*.

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 20% probability of occurrence. The recovery is short-lived in this scenario, as underlying worries from the financial crisis re-emerge with a vengeance. Despite the additional round of monetary easing (QEII), banks continue to write off large amounts of debt and hoard reserves as a means of protection. With little access to credit and fading fiscal stimulus, the private sector is unable to sustain the expansion. For businesses facing low demand, layoffs, furloughs, and wage freezes become the norm. As the employment situation worsens, the housing market suffers another reverse. The weakness in housing further undermines consumer confidence. This, along with the drop in wealth associated with falling home prices and slowing job growth, causes consumers to retrench sharply. In Europe, sovereign debt problems flare up again, pushing stock markets lower and driving the euro back down against the dollar. The U.S. market once again becomes a safe haven and investors seek refuge in U.S. Treasury securities, thereby pushing the dollar upwards. The stronger dollar reduces U.S. export competitiveness, and acts as an additional drag on growth.

Going into 2011, the combination of negative growth, lower oil prices due to weaker world demand, and a stronger dollar create deflationary pressures in the United States: core inflation falls 0.5 percentage point below the baseline rate by the end of 2011. In light of the low inflation readings and the high unemployment rate, the Federal Reserve increases its balance sheet through still more quantitative easing and keeps interest rates in the 0.0%-0.25% target range until the end of 2012. When the economy eventually recovers from the back-to-back recessions, inflation rises faster than in the baseline. The Federal Reserve reacts by rapidly raising interest rates and exiting from its quantitative easing programs. But its response is too late, and inflation continues to climb. Real GDP slips 0.1% in 2011, compared with 2.3% growth in the baseline. Growth slows to only 0.7% in the fourth quarter of 2010, and turns negative during the following three quarters, reaching a trough of minus 1.4% in the second quarter of 2011. Over the longer term, GDP growth remains weaker than in the baseline, mainly because productivity advances only 1.3% on average over the next decade, compared with 1.6% in the baseline.

The double-dip recession exacts a heavy toll on Idaho. Instead of improving, nonfarm employment is flat through 2013, hovering well below 605,000 jobs. The goods-producing sector takes its biggest hit in 2011 when its payroll shrinks by 4.1%. In contrast, it shrinks just 0.4% in the *Baseline Scenario*. By 2014, there are 11,300 fewer goods-producing jobs in Idaho. The nongoods-producing sector manages to grow 0.9% in 2011, but it then stalls. In 2014 it trails its baseline counterpart by 34,400 jobs. Idaho income is also hit hard. Nominal personal income is $4.0 billion lower than in the *Baseline Scenario* in 2014.